



Legislative Research Council

MINUTES

Postsecondary Education Study Committee

Senator Russell Olson, Chair
Representative Tad Perry, Vice Chair

Second Meeting
2012 Interim
August 21 & 22, 2012

Karl E. Mundt Library
Dakota State University
Madison, South Dakota

Tuesday, August 21, 2012

The second meeting of the Postsecondary Education Study Committee was called to order by the Chair, Senator Russell Olson, at 12:30 p.m. (CDT) in the lower level of the Karl E. Mundt Library on the campus of Dakota State University in Madison, SD.

A quorum was determined with the following members answering the roll call: Senator Russell Olson, Chair; Representative Tad Perry, Vice Chair; Senators Jim Bradford, Mark Johnston, Al Novstrup, Deb Peters, J.E. "Jim" Putnam, and Larry Tidemann; and Representatives Dan Dryden, Tom Jones, Mark Kirkeby, Jim White, Dean Wink, and Susan Wismer. Representative Scott Munsterman was excused.

Staff members present included Clare Charlson, Principal Research Analyst; and Annie Mehlhaff, Principal Fiscal Analyst.

(NOTE: For purpose of continuity, the following minutes are not necessarily in chronological order. Also, all referenced documents distributed at the meeting are attached to the original minutes on file in the Legislative Research Council (LRC).)

Approval of Minutes

REPRESENTATIVE PERRY MOVED, SECONDED BY SENATOR TIDEMANN, TO APPROVE THE MINUTES OF THE LAST MEETING, HELD ON JUNE 27, 2012. The motion prevailed unanimously on a voice vote.

Opening Remarks

Senator Russell Olson, Chair, welcomed everyone to Madison and introduced Dr. David Borofsky, who is the Interim President of Dakota State University.

Representative Tad Perry, Vice Chair, thanked **Larry Isaak, President of the Midwestern Higher Education Compact**, and **David Longanecker, President of the Western Interstate Commission on Higher Education**, for traveling to Madison to provide the committee with information on the performance funding models used for postsecondary education in other states.

The Funding of Postsecondary Education in Other States

Larry Isaak began the presentation by providing an overview of the current condition of postsecondary education in South Dakota (**Documents #1 and #2**). He noted that the state needs to increase its degree production. Without an increase, projections indicate that production will not keep pace with the demand for degrees. This is partly due to the fact that baby boomers are aging and retiring at a record pace.

Mr. Isaak also noted that postsecondary enrollment is strong in South Dakota. Forty percent of the state's residents between the ages of eighteen and twenty-four are enrolled in postsecondary education, and seventy-two percent of the state's high school graduates enroll directly into college.

The retention rate at both two-year institutions and at four-year institutions in the state is seventy percent. That is higher than the national average for two-year institutions, but below the national average for four-year institutions. However, the state's lack of a system of community colleges tends to skew this data in national comparisons. The graduation rate at four-year institutions in the state is relatively low. Forty percent of the students graduate within a time frame of six years, and at the two-year institutions, sixty-one percent of the students graduate within three years.

The academic preparation of students for postsecondary education in South Dakota needs attention. The National Assessment of Education Progress (NAEP) results indicate that almost half of the state's students fail to attain proficiency in math, reading, or science, and the ACT results indicate that seventy-one percent of students do not meet the college readiness benchmarks in at least one subject area. To remedy this situation, Mr. Isaak noted the importance of focusing on "the front end of the pipeline as well as the back end" when it comes to preparing students for postsecondary education.

The affordability of postsecondary education in South Dakota also needs attention. The state ranks fiftieth in terms of the amount of money available for needs-based student aid. In addition, seventy-three percent of graduates of public, four-year institutions in the state have some student loan debt. That percentage is higher than the national average; however, the amount of debt carried by graduates in this state is less than the amount of debt carried by graduates in many other states.

Among the strengths of postsecondary education in the state is its strong performance on most of the efficiency and effectiveness indicators. Mr. Isaak stated that the state's degree production in computer science, mathematics, and engineering is about average, but is lower than the national average in the sciences.

David Longanecker advised the committee on how to design a performance funding model. He stressed that what works for one state does not necessarily work for another so it is important to develop a model that meets the state's individual needs. He described how some of the western states went about developing performance funding models, including the states that, in his opinion, did it right and those that made mistakes along the way.

The first step in creating a performance funding model is to identify the key stakeholders, and to involve them in the process. It is wise to put together a broad-based group to develop and promote the model. Next, it is important to establish the goals that must drive the outcomes of the performance funding, and to build consensus on those goals. It does not work to build a model first and then determine the goals. Once the goals are defined, it is important to determine whether those goals can be achieved through performance funding. If they cannot, it is best to opt for another approach.

If the goals can be achieved through performance funding, the next step is to identify appropriate measures. The measures need to be both intermediate and long-term. They also must take into account the differences in student characteristics and the differences among institutions. In selecting appropriate measures, Dr. Longanecker advised that it is best to have as few as possible. He added that it is important to align them with the state's priorities, and to make sure that they measure both quality and quantity. Along with identifying appropriate measures comes the task of defining adequate institutional progress. This will keep the focus on continuous improvement along the way to the goals.

In order for a performance funding model to be successful, it must be sufficiently funded or it will likely be ineffective. Conversely, putting too much money into such a model can also be problematic in that it may draw strong opposition or other unintended consequences. It is also important that the funding become part of the state's general appropriations process. Separate "pots of money" set aside for this use are often subject to budget cuts. In addition to providing adequate funding, the state also needs to foster favorable conditions to allow institutions to comply with the new model, and to prevent the "gaming" of the system by ensuring that no performance funding is attained without accompanying institutional improvements. Lastly, once established and put to use, the performance funding model needs to be continually evaluated to determine if adjustments are needed.

In concluding his remarks, Dr. Longanecker focused on the state of Tennessee, which has a performance funding system that is a favorite to many. One hundred percent of the base allocation is used for performance funding, which is being phased in over a period of four years. The new funding formula began where the old one finished so no institutions lost money as a result. The metrics used to track the funding's progression include an examination of remedial success or how students are faring in classes for which they needed remediation.

Larry Isaak finished the presentation with examples of a few Midwestern states that use performance funding models. In Illinois, a broad-based coalition set the agenda. The goals include increasing attainment, insuring affordability, and increasing the number of high-quality postsecondary credentials. The model rewards institutions for advancing the success of at-risk students. Less than one percent of the total funding is devoted to performance funding, however, so it may not have much of an impact.

In Indiana, the goals are to increase on-time graduation rates, to double the number of college degrees produced by 2025, and to increase the higher education attainment of adults to 60% of the state's population by 2025. Just over five percent of the total funding is set aside for performance funding in 2013, and that amount increase to seven percent by 2015. The goals in Ohio are to graduate more students and to insure that institutions are making college

completion a priority. Fifteen percent of the funding was allocated to performance funding in 2012, and that amount will increase to twenty percent in 2015.

Technical Institute Response to the Postsecondary Education Funding Presentation

Following the postsecondary education funding presentation, **Jeff Holcomb, President of Southeast Technical Institute**, provided a response on behalf of the postsecondary technical institutes in South Dakota. He provided the committee with handouts showing the retention and placement rates at the technical institutes (**Documents #3 and #4**). He indicated that the performance model used by the technical institutes allows them to look at each program offered and decide if it should continue based upon enrollment and retention. If both are low, the program is problematic. Programs with ten students or less are not financially viable. A machine tool program is an example of a program that was cut due to low retention. Sometimes retention is low because students leave to take a job before they complete the program.

Mr. Holcomb said that forty percent of Southeast Technical Institute students come to the campus with credits. The number of students enrolling there right out of high school has remained fairly constant in recent years. He noted that the oil fields in North Dakota are having an impact here, and that will only increase. Truck drivers are in short supply in the area since many have left jobs here to work in North Dakota. Welding programs now exist on all four of the technical institute campuses and are producing welders.

When asked about the possibility of performance funding for postsecondary education in South Dakota, Mr. Holcomb responded that he thinks performance funding is challenging, and that it is difficult to decide what constitutes improvement, especially in technical education due to its volatility. He concluded by saying that he was not sure that it would benefit the technical institutes, and that, in his opinion, the base funding needs to increase before the state tackles performance funding.

At approximately 4:30 p.m., the committee recessed.

Wednesday, August 22, 2012

Board of Regents Response to the Postsecondary Education Funding Presentation

Upon the committee's reconvening, **Dr. Jack Warner, Executive Director of the South Dakota Board of Regents** provided a response to the postsecondary education funding presentation on behalf of the Board of Regents. He began by noting that postsecondary education provides both a public and private benefit, and that the benefit has increased every year since 1970 when it started being tracked.

He stated that the Board of Regents has two main priorities. The first is to improve the educational attainment in South Dakota, and the second is to stimulate more growth in sponsored research. The Board of Regents hired consultants to work with the institutions to improve student success, and over time they want to link that to funding.

Dr. Warner noted that seventy-one percent of students in South Dakota do not meet all four ACT Benchmarks, but nationally the percentage is seventy-five percent. Only thirty percent of students pass the science test because it focuses on science reasoning which is not covered in high school.

The Dakota STEP test is being replaced by a test linked to the Common Core standards. South Dakota is participating with about twenty-five other states in the Smarter Balance Assessment Consortium. The smarter balance assessment instruments, especially the one for grade eleven, will help to evaluate if students are college-ready and hopefully will decrease the rates of remediation.

Dr. Warner stressed the importance of reviewing high school graduation requirements, and said that it should not be so easy for a student to obtain a waiver for the third year of math or science. Parents should be required to make a case before such a waiver is granted. In response to a question from Senator Olson, he noted the strong link between student performance and parental expectations.

The Board of Regents would like to see increases in degree production and increases in the numbers of professional and doctoral degrees rewarded in a funding formula. The unintended consequences of degree production increases could be the watering down of standards, but the Board of Regents controls degree requirements, and Dr. Warner stressed that the board would not approve a lowering of standards.

He explained that the state does not participate in the voluntary system of accountability because the Board of Regents believes they have a better system of assessment already in place. The voluntary system requires only random testing, whereas all South Dakota students are tested using the CAAP exam, and the Board of Regents conforms to the voluntary system in every other way.

The Board of Regents is currently using a pilot performance funding model. The goal of the model is to increase degree production, and it is a model that was thoroughly vetted with the university presidents. It went into effect for fiscal year 2013, and is funded with three million dollars from the institutions and three million dollars in one-time funding from the state. The formula allocates money back to the institutions based upon degree production. It does not treat degrees in a generic way, but rather degrees are weighted with doctoral degrees having more weight than bachelor's degrees and bachelor's degrees having more weight than associate degrees. Greater weight is also applied to those degrees especially in need in the South Dakota job market. The performance funds are separated into two pools. One pool is for institutions granting masters' degrees and the other one is for those institutions that grant doctoral degrees and focus on research.

At its August meeting, the Board of Regents approved a performance funding model that will be used to frame its budget request for the upcoming fiscal year. The model involves looking back six years to compare the earliest three years with the most recent three years to see if improvements have taken place in three areas: degree production, first year to second year student retention, and the production of research expenditure dollars. Dr. Warner commented that the model will be updated each year, and that the board is happy to work with this

committee to refine the model using the valuable information the committee received at this meeting.

Tour of the Dakota State University Campus

Tyler Ruhd, Assistant Admissions Director at Dakota State University, provided the committee with a tour of the campus. The tour began with a visit to the Heartland Technology Center, which was built in 2006 in collaboration with Dakota State University and now provides many local jobs in the information technology industry. The tour continued with a stroll through campus that allowed committee members to walk through several of the major facilities on campus.

South Dakota's Workforce Needs

Pamela Roberts, Secretary of the Department of Labor and Regulations, spoke to the committee about the state's workforce and job market (**Document #5**). She noted that the state's workforce includes any resident who is at least sixteen years old, but no older than sixty-five, and is not incarcerated, institutionalized, in the military or out-of-state. Those in the workforce who are working or actively seeking work make up the state's labor force. Both the state's workforce and the labor force are predicted to increase by 1.5% by the year 2020, but the number of jobs in the state is expected to increase by 7.9% by that time so the state needs to include more people in the labor force. This could be done by engaging Native Americans who are not working, but could work, and by encouraging some retired people to re-enter the workforce. The unemployment rate in 2011 was 4.7%. The twenty-year average unemployment rate is 3.5%, and Secretary Roberts noted that 3.8% unemployment is considered full employment.

She stressed that the Department of Labor and Regulation focuses on the individual worker by helping the unemployed find work and by providing skills training. Many people with low skill levels were laid off at the start of the recession and are still struggling to find jobs.

Secretary Roberts stated that a number of industries in the state need more workers including machinists, welders, sales representatives, truck drivers, and mechanics. The jobs are in high demand and offer good wages. She noted that often, the problem is not a lack of workers, but rather a distribution problem. Many young teachers, for example, prefer to live in Sioux Falls than in a rural area so there ends up being plenty of teachers in Sioux Falls and not enough in the more remote areas of the state.

She indicated that her department works closely with the Board of Regents and the technical institutes on issues relative to the workforce needs of the state. She encouraged the committee to visit the Labor Market Information Center website (<http://dlr.sd.gov/lmic/>) that contains all of the statewide data she discussed, and also has the data broken down by city.

Committee Discussion and Planning

Senator Olson indicated that he would like to have the next meeting on September 19th in Rapid City and also possibly Spearfish to provide ample opportunity for people in the western part of the state to provide public testimony.

Representative Susan Wismer noted that the Joint Appropriations Committee will be participating in a tour in western South Dakota the week of September 10th. She suggested that maybe this committee could join the appropriations committee in their tour of the Western Higher Education Center. If that was not workable, she suggested that this committee visit another postsecondary institution in that part of the state to avoid duplication for the members who serve on both of the committees.

Senator Olson appointed a subcommittee. The subcommittee chair is Representative Perry, and the other members are Senator Peters, and Representatives Dryden, Jones, Kirkeby, White, and Wismer. Senator Olson assigned the subcommittee the task of soliciting proposals for performance funding models from the Board of Regents, the state's postsecondary technical institutes, and anyone else who would like to submit one. The subcommittee will also work to establish a list of goals for a performance funding model, and will complete its work prior to the next committee meeting.

Representative Wismer asked if the committee members thought it would be useful to hear from officials from the placement offices on the state campuses regarding the successes and failures they have had in placing graduates in jobs in the state. She indicated that while the Board of Regents has the aggregate data on job placement, the placement officers might have some anecdotal information that would provide insight.

Senator Larry Tidemann stated that the same data set needs to be used when examining the placement rates at all postsecondary institutions in the state. Currently, the placement rates at the institutions under the control of the Board of Regents are based on data from the Department of Labor and Regulation, and the placement rates at the postsecondary technical institutes are based on survey data that is collected from graduates. Senator Tidemann stressed that survey data may not gather the most accurate information.

Senator Olson asked Representatives Dryden and Kirkeby to look into possible meeting locations in Rapid City and Spearfish, and the meeting adjourned at 1:30 p.m.



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